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Message Text

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62
ACTION NEA-16

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 USIA-15 PRS-01 DRC-01 /157 W
---------- 026697
R 241216Z MAY 74
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 1041

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E.O. 11652 N/A
TAGS:IGAID, CE
SUBJ: MOV NEGOTIATIONS: EIGHTH MEETING, MAY 23, 1974

REF: STATE 105648; COLOMBO 1291

1. AMBASSADOR, ACCOMPANIED BY DCM AND CHIEF OF POLITICAL SECTION(REPLACING ABSENT ACTING AID REPRESENTATIVE), MET WITH FINANCE SECRETARY COOREY AND SIVASUBRAMANIAM OF CENTRAL BANK MAY 23. DEPUTY DIRECTOR EXTERNAL RESOURCES VELAYUTHAM IS IN WASHINGTON FOR NEGOTIATIONS WITH IBRD.

2. AMBASSADOR PRESENTED IN DETAIL WASHINGTON'S REACTION TO GSL COUNTERPROPOSAL AS SET FORTH IN PARAGRAPHS 3 AND 4 OF STATE 105648. HE STRESSED THAT WE CONSIDER CEYLONESE PROPOSALS FOR CHANGES IN INTEREST RATE, TREATING ARREARAGES AS NEW LOAN, AND CHANGE IN MATURITY DATE AS DEBT RESCHEDULING AND OUTSIDE SCOPE OF CURRENT NEGOTIATIONS.

3. HE THEN WENT ON TO SAY USG WA NOT RIGIDLY ATTACHED TO PROPOSAL PRESENTED MARCH 25; THERE WAS SOME LIMITED FLEXIBILITY IN NEGOTIATING COMPROMISE RATE. USG ALSO HAD SOME FLEXIBILITY IN NEGOTIATING REPAYMENT SCHEDULE
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FOR ARREARAGES. HE SAID THAT WHILE NORMALLY USG

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REQUIRES FULL REPAYMENT OF ALL AMOUNTSISUE UPON SETTLEMENT
OF EXCHANGE DISPUTE WITHIN 90 DAYS OF DATE OF AGREEMENT
ON RATE, IN THIS CASE, IN RECOGNITION OF SRI LANKA'S
DIFFICULT FINANCIAL SITUATION, IT IS PREPARED TO EXTEND
PERIOD OF REPAYMENT IN EFFORT TO EASE THE LOAD -- PERHAPS TO
AS LONG AS FOUR YEARS. (THIS WAS AMBASSADOR'S FIRST
MENTION IN NEGOTIATIONS OF POSSIBILITY FOUR-YEAR STRETCH-
OUT FOR ARREARAGES). BUT, HE SAID, UNITED STATES DOES NOT
INTEND TO CHANGE TERMS OF EXISTING AGREEMENTS.

4. COOREY EXPRESSED CONSIDERABLE DISAPPOINTMENT OVER
USG'S REPLY, SAYING ONFIRST LOOK "YOU REALLY HAVE US
IN A FIX ON ARREARAGES". AMBASSADOR RESONDED BY EMPHASIZING
THAT USG HAS TRIED TO BE HELPFUL ON TWO MAJOR COUNTS: ITS
WILLINGNESS TO CONSIDER A COMPROMISE EFFECTIVE RATE OF
EXCHANGE AND IN ITS FLEXIBILITY ON ARREARAGE REPAYMENT TIME-
TABLE. COOREY SAID USG POSITION STILL FELL "FAR, FAR SHORT"
OF GSL PROPOSAL, AND THAT USG STANCE PROVIDED "NOT MUCH
RELIEF FOR OUR CURRENT DIFFICULT FINANCIAL POSITION".
SIVASUBRAMANIAM POINTED OUT THAT FOUR-YEAR REPAYMENT PERIOD WAS
NOT NEW OFFER, INASMUCH AS U.S. TREASURY HAD PROPOSED SUCH
SCHEDULE FOR ARREARAGES CONSIDERABLE TIME AGO. AMBASSADOR
REJOINED THAT THAT PROPOSAL ASSUMED REPAYMENT OF ALL LOANS AND
ARREARAGES AT FEEC RATE.

5. COOREY SAID HE UNDERSTOOD THAT POINTS MADE IN SUBPARAGRAPHS
3 THROUGH 5 OF CEYLONESE COUNTERPROPOSAL (PARAGRAPH 4,
COLOMBO 1291) ARE UNACCEPTABLE TO USG. AMBASSADOR
CONFIRMED THAT TO BE SO. COOREY THEN ASKED THAT WE
TAKE CLOSE LOOK AT GSL PROPOSALS MADE IN SUBPARAGRAPHS
1 AND 2, WHICH HE SAID ARE WITHIN SCOPE OF PRESENT
LOAN AGREEMENTS AND NOT COUNTER TO PRINCIPLES AMBASSADOR
HAS JUST STATED. IN THOSE SUBPARAGRAPHS GSL PROPOSED
THAT ALL PRINCIPAL AND INTEREST AND ARREARAGE PAYMENTS
ON ICA LOAN NO. 1 PRIOR TO AGREED DATE (JULY 1, 1974) WOULD
BE MADE AO OFFICIAL RATE, FEEC RATE TO BE EFFECTIVE AFTER
THAT DATE. RATE OF INTEREST WOULD BE UNCHANGED.

6. COOREY MADE SPECIAL APPEAL FOR GREATER FLEXIBILITY
ON REPAYMENT PERIOD FOR ARREARAGES, NOTING GSL'S EXTREME
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BUDGET STRINGENCY AT PRESENT TIME.

7. AMBASSADOR SAID HE WOULD ASK WASHINGTON TO CBISIDER
GSL PROPOSALS IN SUBPARAGRAPHS 1 AND 2. HE IN TURN URGED
THAT COOREY SEEK GSL PROPOSAL THAT WOULD COME WITHIN
ACCEPTABLE FRAMEWORK OF NEGOTIATIONS, THAT IS, EXCLUDING
DEBT RESCHEDULING BUT TAKING INTO ACCOUNT U.S. FLEXIBILITY
ON COMPROMISE EFFECTIVE RATE AND ON FOUR-YEAR ARREARAGE

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STRETCH-OUT. HE ADDED THAT WASHINGTON HAD INFORMED HIM
IT COULD NOT GO BEYONG FOUR YEARS.

8. NEXT MEETING SET FOR 11:00 A.M., THURSDAY, JUNE 6
AT GSL REQUEST, SO THAT U.S. SUGGESTIONS COULD BE
CONSIDERED AND KEY STAFF MAN VELAYUTHAM COULD BE
PRESENT. REQUEST WASHINGTON GUIDANCE ON CEYLONESE
PROPOSAL IN SUBPARAGRAPHS 1 AND 238 (PARAGRAPH 5 ABOVE)
BY OPENING OF BUSINESS COLOMBO TIME WEDNESDAY, JUNE 5.
VAN HOLLEN

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